INTERNATIONAL NEWS

GLOBAL *dispatches...*

Morgan Guaranty Rallies In Municipal Guarantees

By KIMBERLY REIFEL
Global Guaranty

Morgan Guaranty Trust Co., ranked ninth last year among providers of letters of credit in the municipal securities industry, surged to the No. 2 position with $413.3 million in principal backed during the first quarter of 1990. The letters are bought by municipalities to enhance the credit rating and marketability of the securities they issue.

Morgan was second to only Fuji Bank, which continued to outpace all competitors by chalking up $545.2 million in new issues enhanced in the first three months of 1990. Morgan Guaranty's performance lifts it past its total volume last year of $341.7 million.

Letters of Credit Enhancement

LC Bank	Principal ($ in mil.)	No. of Issue
Fuji Bank Ltd.	$545.2	6
Morgan Guaranty	413.3	7
Sanwa Bank	304.5	2
Union Bank of Switzerland	261.4	2
Dai-Ichi Kangyo Bank	201.7	4
Union Bank of California	181.0	1
National Westminister	164.4	4
Marine Midland Bank	120.0	4
Swiss Bank Corp.	97.6	2
Chase Manhattan Bank	90.0	1
Top 10 Totals	2.4 Bil.	33

Source: Global Guaranty

Morgan Guaranty's rise was partially attributed to increasing concerns by municipal investors about exposure to Japanese banks' letters of credit enhancement, say market sources.

Moreover, Morgan Guaranty's total was increased by replacing the Industrial Bank of Japan as the letter provider on a $250 million Piedmont Municipal Power Authority transaction.

"This is the first time a bank from the U.S. has won over a highly rated Japanese bank," said a Japanese banker.

Fuji Bank, No. 1 last year, backed six deals during the first quarter of this year. Its largest deal was a $170 million issue for the Massachusetts Bay Transportation Authority.

Sanwa Bank, with $305 million in volume, lost its second-place position to Morgan Guaranty. However, Sanwa backed the largest deal of the first quarter – a $278.5 million offering by Chicago.

Two Swiss banks climbed into the top 10 during the first quarter. Union Bank of Switzerland finished fourth on the strength of its only large deal in the quarter, a $229 million offering by Massachusetts. Swiss Bank Corp. finished ninth with volume of $97.6 million on two deals.

Global Guaranty **is an** ***American Banker*** **newsletter.**

... by country

THE NETHERLANDS

Amsterdam-Rotterdam NV and **Algemene Bank Nederland** NV said Thursday they had pledged to trades unions not to dismiss any workers with permanent job contracts because of the banks' planned merger.

The banks said they made the pledge to reassure those employees who had feared substantial layoffs.

ABN and Amro first announced merger plans in March. ABN's chairman, Robert Hazelhoff, said recently he would be disappointed if the talks could not enter their final stage before August.

— Reuters

JAPAN

Fuji Bank Ltd., responding to a decision by **Moody's Investors Service** to put the bank's credit rating under review, said Thursday that the basis for the review was not clear.

On April 24, Moody's said it might downgrade Fuji's senior AAA debt rating because of concerns about the bank's real estate-related exposure, interest rate risks, and high-leverage transactions in the United States.

Fuji said it believes it asset quality is one of the highest among the Japanese city banks and that its real estate financing is supervised with "extreme caution."

Fuji said it would discuss Moody's concerns with the rating agency after closely examining the contents of the review. The Japanese bank also said that its exposure in real estate was in line with that of other banks its size.

— Reuters

NEW ZEALAND

The **Bank of New Zealand** said Thursday it would lay off 216 people in an effort to improve its competitive position in the 1990s.

BNZ said the branch network would lose 130 people. It said a compensation package had been negotiated. BNZ now employees 6,250 in New Zealand.

In a statement, BNZ's chief executive, Lindsay Pyne, said the layoffs were needed.

"The reality is, the bank had allowed an imbalance to develop in its graded staff, where we had too many staff at certain levels in the bank and too few at others. This balance could only be restored through restructuring," he said. □

American Banks Seen Losing Edge

Credit Slide Threatens Market Share, U.K. Rater Says

By JAMES R. KRAUS

NEW YORK — U.S. banks' low credit ratings could destabilize the international financial system and cost the banks market share in this country and abroad, Robin Monro-Davies, managing director of IBCA Ltd., has warned.

London-basded IBCA is the largest credit-rating agency outside the United States.

Speaking Thursday at a Salomon Brothers seminar on international banking, Mr. Monro-Davies noted that in the past decade U.S. banks' credit ratings have sharply deteriorated – to the lowest level among major Western industrialized nations.

'Profoundly worrying'

'The differential is profoundly worrying. If [U.S.] banks, as financial intermediaries, become regarded as inferior credits, they will no longer be regarded as safe places to keep money – and the rationale for having them begins to disappear," the executive said.

Lower credit ratings, he said, are forcing U.S. banks to pay more for the funds they borrow, putting themselves at a competitive disadvantage with foreign banks.

According to an IBCA compilation, credit ratings for the top 11 U.S. banks now average between A and A-plus, while Switzerland's top banks average triple-A, Holland's double-A-plus, and Canadian and Australian banks double-A.

A Slide from Triple-A

Mr. Monro-Davies noted that barely a decade ago most top U.S. banks had a triple-A rating. He attributed the subsequent slide to a surfeit of banks in the United States, lack of loan diversity, and pressures on management to deliver ever-higher quarterly earnings.

U.S. banks' earnings are also coming under renewed pressure as regulators tighten reserve requirements against nonperforming real estate loans, he added.

"U.S. banks suffer far greater pressure on earnings than other banks," Mr. Monro-Davies said. No one can plan a business on a quarterly basis, he remarked.

"My profound hope is that we are near the bottom [in the credit-ratings slide], but I don't say that with tremendous confidence." Real estate loans "still give us grounds for further concern," he said. □

Barclays Negotiating to Buy French Bank

By JAMES R. KRAUS

NEW YORK — Barclays Bank PLC has made a bid for a French bank and is seeking an acquisition in West Germany as part of an expansion throughout Europe, according to a senior Barclays executive.

Jacques Rambosson, chairman of the bank's $5 billion French subsidiary Barclays Bank SA, declined to disclose the name of the bank Barclays is bidding for in France.

He said Barclays needs to make an acquisition in France to obtain a "critical mass" in the personal finance market that would allow it to double revenues controlling costs costs.

Concentration in Spain

Barclay's has 34 branches in France and 230 in allin 11 Continental European countries. The majority are in Spain. The European branches account for about 8% of Barclays' total worldwide assets of $190 billion.

Any expansion by Barclays' Spanish and Italian operations will come from internal growth, Mr. Rambosson said in an interview.

A Foothold in Europe

He added that the bank's second major objective in Europe is to acquire an investment banking operation in West Germany. Barclays has branches in Frankfurt, Dusseldorf, and Hamburg as well as leasing and finance offices in Munich, Stuttgart, and Frankfurt.

"You need to acquire a bank in order to penetrate the German market," said Mr. Rambosson. He cited close relations between West German corporations and banks as the main barrier to foreign banks that are seeking to enter the German market.

"Foreign intruders don't stand much of a chance in Germany," Mr. Rambosson said. He added that there was an unspoken agreement between banks and German companies not to deal with "intruders," especially when it comes to mergers and acqusitions.

According to Mr. Rambosson, Barclays intends to add further expand its European network as opportunities arise. He said the bank expected a fair amount of restructuring in European banking that would enable it to buy operating units. □

Tokai Adds Three U.S. Offices

Tokai Bank Ltd. opened representative offices in San Francisco, Minneapolis, and Columbus, Ohio, on Thursday, the bank announced.

The bank said that the move marked the largest expansion for Tokai Bank in the United States since it established operations here in 1954.

Yukio Sakai, deputy general manager of Tokai's regional planning and business development group in New York, said the offices have been opened in the three cities because of strong local economies and the presence of leading corporations.

Tokai already has branches in New York, Los Angeles, Chicago, Atlanta, and the Cayman Islands, as well as representative offices in Dallas, Lexington and Toronto.

The $245 billion-asset bank has headquarters in Nagoya, Japan, and is the world's eighth-largest bank.

— James R. Kraus

Key International Rates*

	Day-to-day money			3-mo. interbank			6-mo. interbank			Discount rate			Prime equivalent		
	4/26	4/25	4/19	4/26	4/25	4/19	4/26	4/25	4/19	4/26	4/25	4/19	4/26	4/25	4/19
United States	8.18	8.25	8.37	8.68	8.68	8.56	8.93	8.87	8.75	7.00	7.00	7.00	10.00	10.00	10.00
Japan	7.25	7.12	7.12	7.37	7.43	7.43	7.56	7.62	7.56	5.25	5.25	5.25	6.25	6.25	6.25
Canada	13.00	13.00	13.25	13.62	13.62	13.62	13.62	13.62	13.87	13.77	13.77	13.61	14.75	14.75	14.25
U.K.	15.00	15.00	15.00	15.37	15.37	15.18	15.62	15.62	15.56	14.58	14.58	14.61	15.00	15.00	15.00
West Germany	7.37	7.50	7.87	8.37	8.43	8.25	8.75	8.81	8.62	6.00	6.00	6.00	10.50	10.50	10.50
Switzerland	8.75	9.62	10.25	9.31	9.62	9.43	9.37	9.43	9.37	6.00	6.00	6.00	11.50	11.50	11.25
France	9.75	9.68	9.87	9.68	9.81	9.93	9.87	9.93	10.06	9.50	9.50	9.50	10.80	10.80	10.80
Italy	10.50	12.00	12.25	11.75	12.00	12.18	12.12	12.25	12.43	13.50	13.50	13.50	14.00	14.00	14.00

Forward Rate Agreements

	U.S. dollars	Sterling	West German marks	Swiss francs	Yen
3 to 6 months	9.01	15.40	8.86	10.15	7.61
6 to 12 months	9.40	15.30	9.28	8.99	7.66
12 to 24 months	9.89	14.47	8.35	8.25	7.52

* Midday quotes in the New York market

Source: Noonan, Astley & Pearce Inc., New York.

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TOP 100 CREDIT UNIONS
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Will Downgrade Force Citicorp To Pull Back?

By JED HOROWITZ

Although Citicorp's debt rating was lowered only a notch on Thursday, some observers are asking whether the nation's largest bank will have to curb its global game plan.

"They had been the last bank to think they could be all things to all people," said Raphael Soifer, an analyst at Brown Brothers Harriman & Co. "I think that even they are beginning to realize that they can't be."

Citicorp, indeed, ended its global merchant-banking ambitions last year when it closed its London brokerage operations. Also, it has made no commitment to middle-market lending and is selling some small retail branches in nonstrategic areas.

ANALYSIS: *Follow-up on the news*

"There is probably going to be a hard look at the strategies to see whether or not they are too encompassing," said James McDermott, head of research at Keefe, Bruyette & Woods. "I would think that with all the good things that go on in the retail bank, management would want to take a hard look at the wholesale side."

Action by S&P

Nancy Newcomb, senior corporate officer at Citicorp for finance and funding, said that Citicorp has no plans to scale back its global ambitions.

Touching off the question was the decision by Standard & Poor's Corp. on Thursday to lower the rating on Citi's long-term debt. Standard & Poor's said Citicorp's "aggressive capital philosophy leaves it diminished flexibility to face increased risks in the general business environment."

One week earlier, Moody's Investors Services put all Citicorp's securities under review for possible downgrade.

There is little argument that Citicorp's equity and reserve ratios are lower than its peers'. But analysts said the bank company should have no trouble meeting its goal of bringing its common equity-to-reserve ratio from 3.6% to 4% by year end.

Regulatory Pressure Unlikely

And few believe that regulators will force Citicorp to make debilitating additions to its loan-loss reserves or restrain its global ambitions.

On Friday, Citicorp officials backed off from providing a timetable for restoring their eq-

See **DOWNGRADE** *page* **16**

INSIDE NEWS

CONSUMER

THE FEDERAL HOME Loan banks are expected to choose from among hundreds of community proposals as they begin to hand out nearly $79 million in subsidies. *Page 6*

TECHNOLOGY

MAJOR PROVIDERS of global securities services are in a technological footrace. *Page 3*

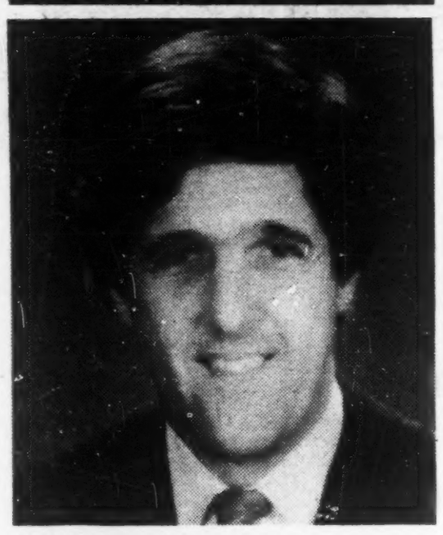
FINANCE

FIRST AMERICAN shares slumped after a federal regulatory examination led to fears of a dividend cut. *Page 32*

INTERNATIONAL

A MAJORITY of House and Senate banking committee members polled would oppose a foreign acquisition of a U.S. money-center bank, but not of a superregional or community bank. *Page 10*

CAPITOL HILL



SEN. JOHN F. KERRY, D-Mass., wants the Senate Banking Committee to probe the role of money laundering in the S&L fiasco. *Page 17*

WASHINGTON

THE SENATE BANKING Committee's hearings on restructuring the financial services industry appear to many observers to be all political talk and no legislative action. *Page 8*

COMMENT

THE BORROWER is often seen as the poor little waif who must be protected, while the lender is a villain, writes Paul Nadler. *Page 4*

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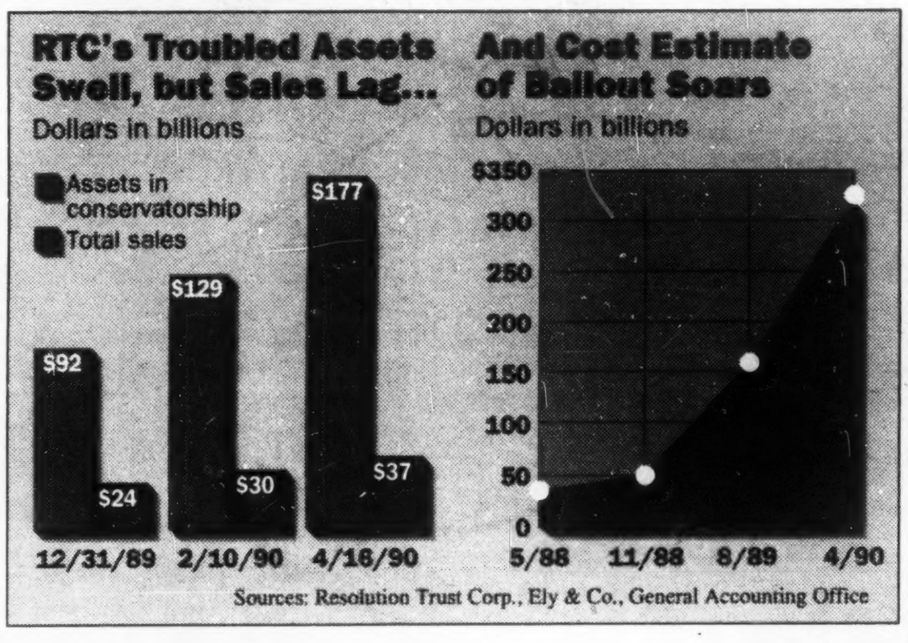

Thrift Fiasco Threatens to Soak Broad Segments of U.S. Economy

By JEFFREY MARSHALL

The thrift bailout, now concluding its ninth month, has evoked a lot of imagery about immensity: elephantine bureaucracy, a Grand Canyon-size fiscal hole, mountains of tainted assets. But perhaps no analogy is more frightening than L. William Seidman's.

THRIFTS: *The Crisis Worsens*

First in a series

"The bad news is that we've seen just the tip of the iceberg," the chairman of the Federal Deposit Insurance Corp. said not long ago. "The worst is yet to come."

In the face of what the General Accounting Office estimates is a $325 billion problem, Mr. Seidman's forecast is chilling. But his analogy strikes many observers as dead on. Unless the rescue gets under way in earnest soon, the government's flailing about, they say, seems more than anything like rearranging the deck chairs on the Titanic.

Launched with much fanfare in August, the Financial Institutions Reform, Recovery, and Enforcement Act has become a giant liner adrift in dangerous

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Downgrade Of Citicorp Contributes To Gloom

By KELLEY HOLLAND and JOHN EVANS

The downgrading of Citicorp's debt by Standard & Poor's Corp. deepened the gloom among some bankers and investors, who worried that the news could tarnish even further the sullied image of commercial banks in the credit markets.

"There is a herd mentality in the marketplace tending to tar all banks with the same brush," said Lawrence Rosencrantz, treasurer, U.S. Bancorp, Portland, Ore. "Citicorp is the leading bank in the country and what happens to them is a leading indicator for other banks. This is not a helpful occurrence."

A Silver Lining

But there was a silver lining to the news. The downgrade on $30 billion in long- and short-term debt was slight, with senior debt lowered from AA to AA-minus. for example. Michael DeStefano, a vice president at Stan-

See **CITICORP** *back page*

Troubled Bank of New England Out $46 Million

By TOM LEANDER

NEW YORK — Sapped by problem real estate loans, Bank of New England Corp. Friday announced it had lost $46.6 million in the first quarter.

The loss reflected a $151 million provision for possible loan losses, a newly created $48 million reserve for other real estate owned, and a $20 million loss from operations. Much of the red ink was offset by a one-time gain of $173 million related to the sale of assets.

Losses Were Expected

The losses were in line with expectations, but analysts emphasized that the bank company is in precarious financial condition.

"It shows continuing deterioration, which is disturbing, not only for Bank of New England but for New England in general," said Gerard Cassidy, an analyst at Tucker, Anthony in Portland, Maine.

"They've instituted a hard-charging plan to survive," Mr. Cassidy said, "but even manage-

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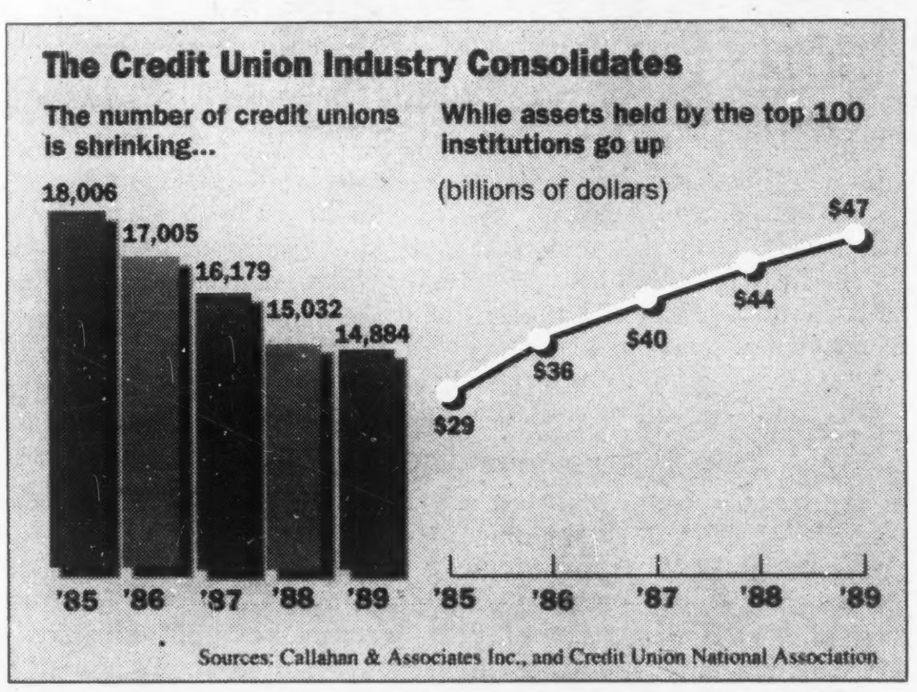

Number of Credit Unions Shrinks As Growth Slows and Profits Dip

By BILL ATKINSON

WASHINGTON — In the latest sign of consolidation of credit unions, the industry declined by 148 institutions last year while the assets of the 100 largest grew 7% to $47.1 billion, according to data compiled by the consulting firm Callahan & Associates.

The data also showed that the industry's overall growth has slowed dramatically, with profits down and capital up.

A rash of mergers and liquidations caused a 17% drop in the number of credit unions to 14,884 at yearend 1989, from 18,006 four years earlier, the Callahan data show.

Meanwhile, the 100 largest, listed in a table on page 23, increased their assets by 60% over that period. Those big credit unions are the principal targets of a lobbying campaign by the American Bankers Association, which contends that, as full-fledged banking competitors,

See **NUMBER** *page* **22**

COMMENT / By Paul S. Nadler

Why Is Bank the Bad Guy When Borrower Goes Bust?

"Thank God most people are honest, or we would all be out of business," a companion at a recent meeting of the New York Credit and Financial Management Association commented.

And all I could think is that if a student gets a 90 on my exam, he or she gets an A, but if a bank gets 97% of its loans paid off, it goes out of business. The 3% of defaults would far more than wipe out the profits even of an institution able to earn 1% on assets.

The amazing thing is that banks have been able to prosper for so long and that the present spate of loan losses and heavy chargeoffs is something most of us have never before witnessed.

Laws Favor Borrowers

Getting your money back in today's environment is not easy. The laws generally assume that the borrower is the poor little waif who must be protected, while the lender is a villain trying to take advantage of the debtor.

Look at the bankruptcy laws.

Having just had a speakers bureau that owed me money go bankrupt, I was amazed to read the form the court sent me, telling me not to dare try to collect from or harass this individual. To do so would violate the law.

The head of a major airline's credit union told me that a pilot can declare bankruptcy while earning well over $100,000 a year, yet the credit union is not allowed to place that information in the pilot's personnel file.

Going First-Class

Life goes on, and somehow most of those who have declared personal bankruptcy continue with their lives as if nothing had happened. Most of these people have lived with the attitude: "If first-class is sold out, I'll wait for tomorrow." And now, when this comes home to roost, it is the banks and the tradesmen who pay for those elaborate lifestyles.

I guess this is a lesson that every generation of bankers must learn for itself.

The "young Turks" come in with the feeling that banking is a new world, that computers and cash flow forecasts mean more than looking in the customer's eyes.

But now, as one of my retired friends at that credit management conference put it, "All of a sudden, they are coming back to me and asking for help now that they have troubles, when no one wanted my advice for years in

the glory days."

And I remember when my father was asked by a major New York bank's chief executive officer: "Why do we do so poorly with the little merchants in New York City while the other banks make money doing business with them?"

My father's answer: "It seems to be because your officers feel that because a man's business is small, he is a crook, while the large borrowers are honorable and dependable.

"Yet it is often just the opposite: The big borrower doesn't care because he knows that if he doesn't pay, the bank is in more trouble than he is. But the little guy doesn't sleep at night until he has been able to repay his bank debt because he knows he needs the banker so badly."

And I saw this attitude reconfirmed at meetings of the board of the real estate investment trust with which I was connected for a decade – until it became the largest bankruptcy in the Southeast.

Whenever the topic of repaying the banks came up, the attitude of so many officers was, "Let them wait. We have their money. What are they so anxious about?"

The irony of all this is that we are a nation that complains about how few people save and how many borrow. Yet we do everything in our power to protect the borrower and punish the saver-lender. We act as if borrowers are all poor people who need the funds and as if lenders are "fat cats" who milk the borrower to build their up wealth even further.

In reality, it is often just the opposite: The saver is the worker who puts away $10 or $20 a week, and the borrower is financing a good home or an investment opportunity.

Deregulation Has Helped

At least, it is not as bad now as before deregulation, 7½ years ago, when interest rates were kept low to aid the borrower while the saver was denied a market return on his bank deposits to make this aid possible. But our laws and attitudes still make criminal the desire of a lender to get his money back.

I was recently asked by a public advocate on a television panel: "Why do the banks take advantage of people who just want to borrow money?" I tried my best to answer, "Lady, you have it backward."

But as long as the public thinks that banks are rich institutions with vaults filled with silver and gold, this will be a hard concept to get across, no matter how high the loan losses get in 1990 – the worst year banking has seen for half a century. □

Mr. Nadler is a contributing editor of the *American Banker* and professor of finance at Rutgers University's Graduate School of Management.

"SOUND OFF"

For the better part of the last six months, bank stocks have been hammered by worries about rising interest rates, high-leverage loans, and reductions in debt ratings, while the overall stock market has at least held its own. Some analysts attach great importance to short-term blips in stock prices, while others say factors like earnings performance and sources of fee income are better indicators of a stock's quality. Financial writer Merri Rosenberg asked several people for their views.

Q Is too much attention paid to short-term price movements in bank stocks? What other factors should be considered?

■ Gerald H. Lipkin
Chairman/chief executive officer
Valley National Bancorp

Every morning I check in on how we're doing, and I try to monitor our peers and competitors every day. I think our shareholders are concerned with the movement in stock prices day by day, but I don't think analysts pay as much attention to day-to-day stock prices as to quarterly earnings.

There's too much attention paid to short-term performance in general, and that makes it hard for a CEO to pursue strategic planning. People increasingly are focusing on short-term performance, and that's not good in the long term for the health of the country. In general, shareholders and analysts pay more attention to the short-term performance of the company.

But for a company to perform well in the long term, it may have to make decisions that will have an adverse effect on earnings in the near future.

■ Lacy Shockley
Vice president
Smith Barney, Harris Upham & Co.

It really depends. Every investor has a different time horizon, and some of them are virtually weekly or monthly. Bank stocks tend to trade in big cycles, relative to the economic cycle. They tend to do well when the relative earnings look good to the market. With long-term investment money, you can pick real high-quality banks and hold them for a long time. But you have to be very selective.

You can have large fluctuations in a short time. Right now, the banking group is so out of favor that none of the stocks are trading at high volume. That creates less efficient markets. In the last 10 to 15 years, banks have gone from being a relatively homogeneous group to a diverse group.

You have to look closely at the structure, and at the geographic area. For example, bank stocks do better if there are strong sources of fee income, and right now the Midwest might be doing better than the Northeast.

■ Fred Meinke
Vice president,
Senior bank analyst
Raymond James & Associates Inc.

I think it's important to stay in touch even with intraday changes in the stock. I look at the Quotron six to eight times a day, more if something's going on.

The key point is that this gives you some idea of what the investor thinking consensus is and can keep you alert to fundamental concerns as well. It can be an early warning of people's concerns about fundamental change. Changes in a bank's stock price can give a sense of the expectations regarding a particular bank's performance.

However, watching the price of a stock and translating that into investment value are related, but not necessarily the same thing. It's also important to watch longer-term trends. Long-term patterns are very important in determining whether or not a stock should be purchased. There's been tremendous pressure for investment performance coming out of a decade of very high growth, and we may be going into a period of slower growth – so fluctuations on the short-term front may not be as important.

■ Stephen Berman
Vice president/bank analyst
County NatWest Securities Corp.

I watch the short-term fluctuations very carefully. They indicate investors' reactions to perceptions, expectations, and rumors. Sometimes I agree with those movements, and it confirms what I think already; other times I have no idea why this happens. For example, I may see that a bank's earnings are terrific, but the stock is down. When I don't understand what's happening, I'll give the bank a call.

But stock price movements don't have much to do with the value of a stock. I find that investors don't distinguish among banks. The bank cycle is different from the business cycle, and behaves in a unique way. It can be hard to identify what stage we're in.

More and more investors are fairly hunch oriented; if the stock goes up a point or two, and begins to recover, they think it's now the time to buy. But this isn't a terribly efficient market.

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